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SUBJECT: ISRAELI VENTURE CAPITALISTS REQUEST CLARITY ON

SALE OF ISRAELI SOFTWARE TO USG SECURITY AGENCIES

Classified By: Ambassador Daniel C. Kurtzer for Reasons 1.4 (b,d)

¶1. (C) Summary. Senior Israeli venture capitalists outlined to the Ambassador March 3 difficulties Israeli firms are having selling software relating to homeland security and counterterrorism to certain USG entities. According to Chemi Peres, chairman of one of Israel's largest VC firms, Pitango Investments, and Moshe Mor, general partner in the U.S. firm Greylock, the sale of such software to USG agencies is being blocked as a result of counterintelligence and counterterrorism concerns. The Ambassador noted that the purchase of software by U.S. security agencies is a very sensitive issue involving legitimate national security concerns. In order to facilitate useful dialogue, he said the Israeli Government, not private firms would need to decide if it wanted to raise this issue. He stressed that any progress on the issue would take time and would have to enable U.S. firms to sell to the GOI as well. End summary.

¶2. (C) Mor began the meeting by noting that his firm, founded in 1965 with private investors and a number of U.S. universities, had begun investing in Israeli high tech companies two years ago. A number of these firms produced software with direct application in the field of homeland security. Although the firms' products were a perfect fit for USG agencies engaged in the fight against terror, Mor said, the firms had run into two sets of security concerns that were hindering sales. The first issue, foreign ownership, was an "old" problem with well-established and clear remedies. The more difficult issue, according to Mor, was USG aversion to purchasing software developed outside the U.S. for sensitive applications. Mor claimed that USG agencies do not wish to discuss their objections to the purchase of "offshore" software in an open, transparent manner, and that there are no established remedies for the Israeli companies to address USG concerns. Mor claimed that Israeli companies are subject to greater scrutiny by USG agencies than firms from other countries.

¶3. (C) Mor presented four examples. He said that one USG security agency had informed an Israeli firm that "its counterintelligence team would not allow 'doing business with an Israeli company.'" A second firm, Checkpoint Software, had spent USD 500,000 trying to address concerns about its Israeli-developed code, and had only partial success in overcoming USG objections. Another company that had developed smart alerts software (which looks at a complex series of data, collates it, and issues alerts if certain pre-set criteria have been met) suddenly found its commercial discussions with the USG cut off for no reason. Lastly, the FBI had signed a \$700 million annual contract with an Israeli firm, Clear Forest, to supply text analytics software. Mor noted that, one year into deployment of the software in question, the FBI decided not to renew the contract, "citing (informally) a veto by its counterintelligence team."

¶4. (C) Mor noted that the established method of certifying software for sensitive uses, clearance through the National Information Assurance Partnership (NIAP), is expensive and burdensome, particularly for many Israeli high-tech firms, which tend to be small. Summing up, Mor asked the Ambassador for help in establishing a dialogue with USG agencies in order to identify the issues of concern to them and to search for a way to resolve those concerns.

¶5. (C) The Ambassador noted that U.S. concerns over the purchase of "offshore" software by USG national security entities reflect the highly sensitive nature of such purchases. He stressed this sensitivity is based on experience and that it is legitimate. He asked whether U.S. software firms can sell intelligence-related software to the Israel security and intelligence agencies. The Ambassador said he doubted such sales were possible. He also stressed that, as far as he knew, USG concerns about software developed outside the U.S. apply to all countries and not to Israel in particular. If this was not the case, the Israelis needed to demonstrate this clearly.

¶6. (C) The Ambassador noted that Israel had successfully addressed related concerns in the area of defense procurement, but that the process had taken a number of years. He imagined that software procurement would be even more time consuming. As a first step, he said the GOI would

need to decide whether it wanted to raise this issue and then to identify a point of contact to discuss it. Once this step was taken, the appropriate authorities could begin to introduce this issue into the on-going bilateral discussions on related issues. In this regard, he noted that the Commerce Department Undersecretary for Industry and Security, Kenneth Juster, was currently in country discussing dual use issues with GOI bodies. Other opportunities for such discussions would present themselves. (Note: Minister of Industry and Trade Olmert raised with U/S Juster a related issue -- the failure of the Israeli high-tech firm Checkpoint Software to gain approval for its proposed purchase of a U.S. firm because of security-related issues (see septel).)

17. (C) The Ambassador stressed, however, that any agreement reached would have to work in two directions. He reminded Peres and Mor of the difficulties U.S. firms are having with the GOI's procurement system, as outlined in remarks by the Ambassador at the Israel-US Chamber of Commerce meeting on February 10, 2004. These difficulties were exacerbating a significant U.S. trade deficit with Israel. If Israel wanted USG entities to purchase Israeli goods for sensitive uses, then the USG would demand the opportunity for U.S. firms to compete for similar GOI contracts on the basis of a level playing field.

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